

May 28, 2014

By email to regcomments@ncua.gov

Gerard Poliquin,
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Re: RIN 3133-AD77, Comments on NCUA Proposed Rule: Prompt Corrective Action-Risk-Based Capital

Dear Mr. Poliquin:

In addition to the comment letter submitted by the Federal Home Loan Banks (FHLBanks) related to risk weights on investments in the capital stock and debentures issued by the FHLBanks, the Federal Home Loan Bank of Topeka (FHLBank Topeka) respectfully submits the following comments on the above-referenced proposed rule regarding the impact it would have on risk weights for loans our member institutions sell to us under the Mortgage Partnership Finance (MPF) Program. Under the proposed rule, MPF loans are treated as off balance sheet loans sold with recourse and carry an effective risk weight of 37.5% (50% risk weight with 75% conversion factor). FHLBank Topeka and many of our member credit unions participating in the MPF Program have determined that this capital charge is high relative to the credit risk members retain under MPF.

For nearly 15 years, the MPF Program has served the housing mission of FHLBank Topeka, and other FHLBanks, by providing funding to member financial institutions in support of home mortgage finance. To-date, FHLBank Topeka has funded or purchased more than 106,000 first mortgage loans, totaling \$15.5 billion, through the MPF Program. Currently, 284 members consisting of banks, savings and loans and credit unions, have been approved to sell loans under the Program. MPF has proven to provide an attractive secondary market funding alternative for credit unions, which thereby enhances their ability to provide fixed rate mortgages to the members they serve.

The MPF Program is a unique secondary market outlet for conforming fixed rate residential mortgages, in which participating FHLBank members provide a credit enhancement (CE) based on the characteristics of mortgages being originated and sold under the Program. The CE is a fixed dollar exposure for a specific pool of loans or Master Commitment. It is one piece of the credit support that absorbs losses in a specific loan pool which exceed homeowners' equity, primary mortgage insurance and an FHLBank-provided first loss account (FLA). In exchange for providing the CE, members receive ongoing credit enhancement fee income over the life of the loans. This approach rewards member credit unions for quality underwriting and provides a superior execution because it removes inefficiencies associated with charging guarantee fees based on the

possible future performance of loans. Instead of assessing charges to cover projected losses, actual losses are covered by private capital provided by the FHLBank and its members.

Consequently, the historic performance of MPF loans has been very strong, with delinquency rates and credit losses that are far below national trends during a very difficult period for residential mortgages. The delinquency percentage for FHLBank Topeka's MPF portfolio has averaged 27% of the national delinquency rates and has not exceeded 2% of the outstanding balances based on year-end delinquencies from 2007 to 2013. Over this same period of time, per annum credit losses have averaged slightly more than 2 basis points, with FHLBank Topeka covering 78% of all credit losses. Our participating members' average annualized credit losses have been approximately one half of one basis point.

In addition to the FLA covering the majority of the credit risk on MPF loans, participating member credit unions do not retain any interest rate or concentration risks on the sold loans. Based on the historic performance of MPF loans and the very small amount of sustained credit losses, FHLBank Topeka believes the capital charge under the proposed rule is too high and recommends that a lower conversion factor be used that recognizes the FLA and the strong historic performance of MPF loans. Based on discussions with our credit union members, a conversion factor of 50% or less (along with the proposed 50% risk weight) would better align with their low risk exposure and allow them to continue to compete in the mortgage market. Such a requirement, that is essentially 2% or less of the unpaid balance of the sold loan, would be more than sufficient to cover the member credit unions' CE exposure in any scenario.

We would welcome the opportunity to assist the NCUA in analyzing the CE exposure associated with the MPF Program and developing an approach that better aligns the capital requirements with the amount of credit risk being retained by participating credit unions. Thank you for the opportunity to submit these comments.

Sincerely,

A handwritten signature in black ink, appearing to read "David S. Fisher", written in a cursive style.

David S. Fisher

Senior EVP and Chief Operating Officer